

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 8164
BILL NUMBER: HB 1802

DATE PREPARED: Feb 3, 1999
BILL AMENDED:

SUBJECT: Martinsville Food and Beverage Tax.

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FUNDS AFFECTED:	GENERAL	IMPACT: Local
	DEDICATED	
	FEDERAL	

Summary of Legislation: This bill permits Martinsville to impose a 1% food and beverage tax for city hall improvements, police and fire station construction, sanitary sewer and wastewater facility improvements, and storm sewer drainage improvements.

Effective Date: July 1, 1999.

Explanation of State Expenditures: The Department of Revenue's (DOR's) costs for administration, audit, and collection of food and beverage taxes are approximately \$0.51 for every \$100 collected. The DOR's current resources are sufficient to absorb the additional costs associated with this proposal.

Explanation of State Revenues:

Explanation of Local Expenditures: If a tax is adopted under this bill, the fiscal body of Martinsville must establish a food and beverage tax receipts fund. The expenditures required to establish this fund are not expected to be significant.

Explanation of Local Revenues: (Revised) This bill establishes a 1% tax on food and beverages prepared and served for sale in the city of Martinsville in Morgan County. Revenue from this tax would be used exclusively for renovating the city hall, constructing new police or fire stations, and improving the city's sanitary sewers, wastewater facilities, or storm water drainage systems.

According to the most recent US Census data, total food and beverage sales in Morgan County for CY 1992 were \$36,891,000. Based on this amount, a 1% food and beverage tax would have generated an additional \$368,910, or 1% of the total sales. Before projecting future revenues, this figure must be adjusted to reflect sales of prepared foods (such as those sold in supermarkets) which would be subject to the proposed tax but are not included in the census data. An additional 10% of the \$368,910 projection is added to establish a CY 1992 baseline of \$405,801 for Morgan County.

The average growth rate of food and beverage-related sales tax collections as reported by the Department of Revenue from CY 1992 to CY 1997 was 1.6%, and this rate was used to project tax collections through CY 2001. However, the proposed tax would be applied only in the city of Martinsville, not throughout Morgan County. It was estimated

that about 95% of food and beverage sales in Morgan County are transacted in Martinsville and Mooresville. Mooresville currently imposes a 1% food and beverage tax and collected \$251,978 in 1998. This total represents 56.5% of the projected Morgan county total in CY 1998, and after subtracting 5% for other localities, Martinsville's share of total food and beverage tax was estimated at 38.5% ($56.5\% + 5\% + 38.5\% = 100\%$). This percentage was multiplied by the county projections for CY 1999, 2000, and 2001 to produce the revenue estimates of \$164,738, \$177,529, \$180,364, respectively.

Due to the effective date of July 1, 1999, Martinsville would likely collect taxes only on food and beverage sales for the fourth quarter of the city's fiscal year. The actual expected impact for CY 1999 would be one-fourth of the annual projection, or \$33,546.

Note: According to recent US Census estimates (July 1, 1996), the population of Martinsville is about 62% greater than that of Mooresville. In addition, information from the Morgan County Department of Health shows that there are approximately 55 restaurants and 25 grocery stores in Martinsville compared with 40 restaurants and 15 groceries in Mooresville. Based on this general comparison, it is possible that a 1% food and beverage tax in Martinsville could generate as much as is currently collected in Mooresville.

State Agencies Affected: Department of Revenue.

Local Agencies Affected: Fiscal body of Martinsville.

Information Sources: Morgan County Health Department; Department of Revenue, year-end sales tax collections.